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Public service board announces Energy efficiency budget

Montpelier, Vermont — The Public Service Board today announces the Energy Efficiency Utility ("EEU") budgets for 2006, 2007 and 2008, and initiates a process to develop financing alternatives to reduce the short-term impact of the Energy Efficiency Charge ("EEC") on electricity rates. The Board's Order is the outcome of a comprehensive, ten-month-long workshop process that followed Legislative action removing the former cap of $17.5 million on the annual EEU budget. The decision raises the 2006 funding level from $17.5 million to $19.5 million, and establishes funding levels of $24 million and $30.75 million for 2007 and 2008, respectively. The Order concludes that higher funding levels may be appropriate, and may be established within 15 months, based in part on whether the additional process announced in the order leads to methods of financing EEU funding to mitigate the impact on electricity rates in the near term.

Legislation passed in 2005 removed the previous funding cap on EEU spending and required the Board to set the budget at a level that would "realize all reasonably-available, cost-effective energy efficiency." Among the criteria the Board must consider in setting the budget level are priority objectives to: reduce the size of future power purchases; reduce greenhouse gases; limit the need for transmission and distribution upgrades; and minimize the cost of electricity. In addition, the statute requires the Board to consider the impact of efficiency programs on electric rates.

In establishing the new budget levels, the Board recognizes that investment in cost-effective energy efficiency results in total electric costs to Vermont that are lower than they would be without efficiency. This is because energy efficiency provides savings to consumers who install efficiency measures, as well as savings to all ratepayers through reduced need for power purchases by utilities, deferred need for system upgrades such as transmission lines, and other statewide savings. Since its inception in 2000, the EEU has saved Vermonters over $220 million in total benefits. The new budget "will enable the EEU to work in the short-range toward minimizing lost savings opportunities while still providing training to contractors, business customers and partners that is necessary for long-term market transformation," the Order states.

Regarding the budget amounts determined by the Board, the Order states "Our concern regarding the impact of increased electricity rates on the welfare of the state and its people contributed to our decision to phase in the EEU budget increase. . ." and concludes that the announced levels of increase in the EEU budget represent "an aggressive goal given the current conditions of the state and global economy, and the pressures these conditions exert on businesses and individuals."

The EEU is funded by a usage-based charge on all customers. Thus, increasing the budget raises rates at a time when 12 electric utilities have recently filed for rate increases ranging from 6.15 to 22.86%. The EEC currently represents 2.82% of total Vermont payments for electricity. The new EEU budget levels will add less than 0.2% to rates in 2006, approximately 0.5% in 2007, and approximately 1.2% in 2008.

In order to mitigate the rate impact, the Board announced an additional process that will assess the feasibility of various ways to finance energy efficiency, such as bonding or securitization, to mitigate the short-term rate impacts of investing in energy efficiency.

In announcing its intention to consider long-term financing for energy efficiency, the Board noted that state policy supports the treatment of efficiency comparably to supply resources, such as generation and transmission, in regional and federal policy. Supply resources are typically paid for by issuing equity or bonds, which are paid off over time. In contrast, the current practice for energy efficiency is to expense the entire investment in the year it is incurred, even though the energy savings extend for many years. Creating a means to finance energy efficiency would result in comparable treatment of efficiency and supply-side costs by amortizing rather than expensing efficiency investments. In addition, financing better matches the timing of the payments for the energy efficiency to the savings from those investments, so that current and future ratepayers share both the costs and the benefits.

During the workshop process leading to the Board's decision, the Department of Public Service presented a study it had commissioned concluding that it would cost $358 million (in 2006 dollars), or an average of $35.8 million per year, to capture all reasonably-available, cost-effective energy efficiency over the next ten years. The Department's study concluded that acquiring all achievable cost-effective energy efficiency over this time period could result in net present value savings to Vermont ratepayers of approximately $964 million (in 2006 dollars). Noting that approximately $7.5 million of this annual amount was associated with fuel switching from electricity to fossil fuels, the benefits of which are less certain because fossil fuel prices have increased, the Department recommended a funding level of $26.4 million in 2008.

Various participants challenged the Department's study as too conservative in its estimates primarily because it assumed a level of incentive payment to participants lower than the level that would achieve all reasonably-available, cost-effective efficiency. These and other participants advocated funding by 2008 of double or triple the current level.

While some businesses supported increasing the EEU budget, a group of businesses and business organizations opposed significant increases, citing the absolute dollars a higher budget would add to their EEU obligation. These participants argued that an increase in the EEC, along with other energy and tax burdens, threaten economic harm to the state by impairing the ability to compete in the global market, thus threatening Vermonters with potential job losses. They recommended no increase in the budget, or at most, a cost of living increase.

However, the Board concluded that the budget levels set by today's Order "balances the energy efficiency charge's short-term rate impacts with the long-term benefits of energy efficiency."

In addition to holding a public workshop on financing EEU funding, the Board will accept written comments from the public on how to balance the statutory requirements of: providing the opportunity for all Vermonters to participate in efficiency programs; targeting efficiency efforts to achieve the greatest value; and limiting the need to upgrade the state's transmission and distribution infrastructure.

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